

MINUTES OF THE SPECIAL CITY COUNCIL MEETING
SATURDAY- -FEBRUARY 7, 2009- -8:30 A.M.

Vice Mayor deHaan called the meeting to order at 9:00 a.m.

Roll Call - Present: Councilmembers deHaan, Gilmore,
Matarrese, Tam and Mayor Johnson - 5.

[Note: Mayor Johnson arrived at 9:05 a.m.]

Absent: None.

The City Manager provided a brief introduction.

Sharon Cornu, Alameda Labor Council, stated labor management relations are not following a democratic, fair bargaining process; labor organizations object to the policy that states the City is committed to using private sector resources in delivering municipal services.

(09-061) Recommendation to accept the Financial Report for the Second Fiscal Quarter - October, November and December 2008.

The City Manager gave a brief presentation to provide budget context.

The Interim Finance Director gave a presentation.

Mayor Johnson requested an explanation of the just over \$200,000 difference; stated the Council needs to understand to ensure it does not happen again.

The Interim Finance Director responded the math for revenue and expenses were off; stated the budget was done using Excel spreadsheets instead of the City's finance system; mathematical errors cannot be precluded; a retirement anticipated in the Finance Department did not occur.

Councilmember Matarrese inquired whether the amount was a math error or misprojection about someone retiring.

The Interim Finance Director responded both; stated the amount was off by \$100,000, which seems like a math error since the number is even; the projection was one person would leave.

Councilmember Matarrese stated \$217,000 might be the amount needed to keep the library open; the cause of the error has to be identified in order to minimize the occurrence in the future.

The Interim Finance Director stated there are several ways to stop the error from occurring; human beings make errors; the financial system is being redone to prevent re-keying in the budget.

Mayor Johnson inquired whether assumptions about retirements are factored into the budget and whether said procedure is the normal way to operate.

The Interim Finance Director responded that she is addressing how to solve the math error; stated the other issue is how to plan staff reductions; planning for the next budget started really early; staffing decisions will be made well in advance.

Mayor Johnson inquired what is the normal budget development process for factoring in staffing levels.

The Interim Finance Director responded a position would have to be cut to compensate if retirement does not happen; stated departments need to have a contingency plan to prevent the same situation.

Mayor Johnson suggested funding for the position be included in the budget until the person retires to prevent departments from overspending.

The Interim Finance Director outlined how service levels would be reviewed for the next fiscal year budget.

Mayor Johnson stated it sounds like the City has a fairly archaic finance system; good work is being done to improve things; questioned what can be done to ensure that the City does not go backwards again.

The Interim Finance Director provided a brief explanation of how the budget is being changed to make it a useful management tool.

Mayor Johnson stated the Council needs to know what the issues are and needs to set priorities; the City cannot continue to be run the same way; greater emphasis on analysis is needed; the budget should be each manager's number one priority; a lot more emphasis on fiscal matters is needed; a lot of catch up is being done.

Councilmember Matarrese inquired whether 103 is the appropriate number of funds for a city of Alameda's size; stated an item for the issue bin should be whether the City would realize clarity and efficiency by consolidating accounts.

The Interim Finance Director responded some funds could be

consolidated; stated the City probably should be closer to 70 funds; the City has a lot of Assessment Districts; impact fees by geography are being reviewed for Capital Improvement funds, which currently have four funds; work is harder than it needs to be in some areas; staff is working on cleaning up the FY 2009-10 budget.

Councilmember Gilmore inquired whether ancient hardware cannot run the finance software or whether the current software needs to be used differently.

The Interim Finance Director responded both; stated the software is unix based, which is a problem.

Mayor Johnson noted the problem seems to be a deferred maintenance issue.

The Interim Finance Director stated the hardware cannot run anything new; the matter would be discussed under the Internal Service Funds (ISF); staff is addressing the issue.

Councilmember Tam inquired whether one finance staff person is assigned as a liaison for each department.

The Interim Finance Director responded departments are divided amongst four staff members; outlined the assignments.

Councilmember Tam stated deferred maintenance has been passed on from prior years and continues to be pushed off; it is mutually exclusive to spend money to improve operations while cuts are being made at the same time; stated that she needs to understand how said tension is dealt with to achieve a balance.

Vice Mayor deHaan stated budgets have been cut by \$4 to \$5 million every year; there always seem to be surprises; some surprises were improper accounting of funds; there are always discoveries late in the game; that he would like to hear how the City will avoid said circumstance.

The Interim Finance Director stated having a fresh set of eyes helps; staff is going through each fund; a lot was discovered in the first quarter; that she is confident in the way program performance budgets work; issues will be smoked out once the City forces itself to budget revenue and expenses on an expenditure program basis; funds are being cleaned up to make management easier; surprises come up when funds have been earmarked in an annotation, but not included in the accounting system; the two worlds have not met; in the last six months, the Finance Department has worked diligently to determine what funds are available; that

she was 70% sure there would be no surprises when she started; today, she is 95% sure.

Vice Mayor deHaan stated revenue streams can shift; too often there have been internal surprises.

The Interim Finance Director provided an overview of the mid-year budget.

Mayor Johnson inquired how much would be budgeted for Other Public Employee Benefits (OPEB) during the current fiscal year.

The Interim Finance Director responded the matter would be addressed later in the day; staff has a recommendation; continued her presentation by providing a debt overview.

Mayor Johnson stated the Council does not believe the way the City has been balancing budgets can be sustained; the City has been using a band-aid method; real steps need to be taken towards a sustainable, balanced budget; the corporate world refers to it as adjusting the corporate structure to reflect current realities.

Vice Mayor deHaan stated debt has been restructured two times; looking at restructuring a third time is a problem.

Councilmember Gilmore stated debt is a part of how cities run; the overall question is whether the City's level of debt is appropriate.

Councilmember Tam stated refinancing was one of the tools that brought the budget into balance; each department took a hit; sacrifices have been made.

Mayor Johnson stated the refinancing was positive.

The Interim Finance Director provided an overview of the debt report; stated the City only has one outstanding general obligation bond, which is very low; the City also has tax increment, which is the way redevelopment agencies work; tax increment is not an obligation of the City.

The Development Services Director briefly commented on tax increment.

Councilmember Matarrese requested staff to discuss the \$900,000 the State took from redevelopment.

The Development Services Director stated the amount is being paid

out of the reserve; if the fund did not have a reserve, funds would have to come from operating expenses, which would have impacted staffing.

Vice Mayor deHaan inquired whether the funds had been obligated, to which the Development Services Director responded in the negative.

The Interim Finance Director stated it would take 15 years to accumulate the amount of cash needed for a redevelopment project; debt is the nature of redevelopment.

Mayor Johnson stated redevelopment transforms blighted areas into positive parts of the community.

Councilmember Matarrese stated ISF touch other funds; the balance sheet has a \$5 million negative liability; inquired whether \$2.7 million needs to be made up from other funds.

The Interim Finance Director responded in the affirmative; stated alternatives would be reviewed after lunch; continued the debt presentation.

In response to Mayor Johnson's inquiry regarding Golf Course debt, the Interim Finance Director stated Certificates of Participation (COP) were used for driving range improvements.

Mayor Johnson stated a policy needs to be in place to ensure that debt does not extend to the life of the project; the driving range needs major renovations and the previous renovations have not been paid off.

The City Manager stated the issue would be added to the issue bin.

Councilmember Tam stated the COP were financed at a 4.5% interest rate; inquired whether the amount is lower now.

The Interim Finance Director responded in the negative; stated tax-exempt issues in the market today are at 9%.

Mayor Johnson stated the State's historically low bond rating has a direct impact on cities and local government; the City's bond rating has not changed, but the ability to obtain bonds is affected.

The Interim Finance Director stated the City had to respond to a series of questions from a bond-rating agency due to an outside claim that the City is going into bankruptcy.

In response to Vice Mayor deHaan's comments regarding debt, the Interim Finance Director responded debt public relations would be added to the issue bin.

Walter Schlueter, Alameda, discussed financial systems; urged internal systems be reviewed and changed.

Gretchen Lipow, Alameda, discussed the State and school budgets.

Mayor Johnson stated Council would wait to take action on the item until after the OPEB discussion.

[Note: The motion was made at the end of the meeting, see page 30.]

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Mayor Johnson called a recess at 10:50 a.m. and reconvened the meeting at 11:05 a.m.

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(09-062) Discussion of draft General Financial Policies and Guiding Principles; no action required.

The Interim Finance Director gave a brief presentation; stated deferred maintenance would be added to each section in response to a suggestion made by the Public Works Director; suggested comments be provided on each section starting with Section I, Guiding Principles.

Mayor Johnson stated, under Expenditures [Section I.E], there should be a requirement to report things that the City is not paying for in order to balance the budget.

The Interim Finance Director suggested language be added to the Budget section [Section II].

In response to Mayor Johnson's inquiry whether language should be added to Policy I.E.1 or under the Budget section, the Interim Finance Director stated current year expenditures is limited and does not mean full liabilities; that she would work on language that indicates the current year revenues shall fund the current year expenditures and a proportionate share of liabilities.

The Development Services Director inquired whether the policies are only about the General Fund; stated policies are not going to work for some of the other funds.

The Interim Finance Director responded some of the policies do not work for the Housing Authority, Alameda Municipal Power (AMP) and

the redevelopment agency; stated a subsection would be created to deal with said groups.

Councilmember Matarrese stated the general policies and principles need to apply to the entire City; accounting principles apply to everybody; human resource management should apply to everyone and needs a lot of work; debt management should apply to everyone; the "how to" would be specific to each; policies should address what has to be done, how it is done is fund and agency dependent; "how tos" should not be addressed too heavily.

Mayor Johnson stated clear disclosure of what, if anything, is not being paid for is needed; the City has not been making needed investments in the Finance Department; running a City on dinosaur technology is inexcusable; the Council did not know about the matter until today; questioned how the Council can prioritize without knowing about assets.

In response to Councilmember Matarrese, the Interim Finance Director stated an appendix could be added to address the "how tos" on a larger scale.

Councilmember Gilmore stated the policy that the City shall utilize one-time revenues for one-time expenditures should be throughout the document, similar to deferred maintenance; one-time revenues should not be allocated for on going maintenance or salaries; under expenditures, surplus revenues [Policy I.E.2] includes a laundry list, but does not include unfunded liabilities like OPEB.

The Interim Finance Director stated the list would also include reducing deferred maintenance liabilities; some things need to be constantly restated.

Mayor Johnson stated the City always needs to have a plan for operation and maintenance before approving new infrastructure; inquired whether said concept is included in the policies.

The Interim Finance Director responded in the affirmative; read language suggested by the Public Works Director.

The City Manager stated the issue is addressed in Policy I.G.3, but needs to be reemphasized.

Councilmember Gilmore stated certain principles that are important enough should be a general theme throughout the entire document; a couple that are so overarching and impact the way the City should be doing business have already been identified.

The Interim Finance Director stated the list includes: one-time revenues, deferred maintenance and future liabilities.

Councilmember Matarrese stated the principles should be for every operation; absolutes include: setting an OPEB figure for new employees and the debt ratio; the worst-case scenario should be selected for the benchmark.

The Interim Finance Director stated the same debt ratio might exist for the Housing Authority and AMP, but Development Services could cause a problem given the nature of redevelopment debt.

Councilmember Matarrese stated there is revenue; the same standard could apply.

Councilmember Gilmore stated, if there is an exception, staff should spell out why the policy should not apply.

Councilmember Matarrese stated the policies should be general, but strong enough; if the benefit is so great that the City has to deviate from its guiding principles, the matter can be taken to the governing body; adding loopholes would be a mess and impossible for the next group to interpret.

Vice Mayor deHaan stated sustainability should be an overriding principle; suggested a definition be included.

The Interim Finance Director stated a glossary could be added.

The AMP General Manager stated the guiding principles might need to be distilled to a higher level to apply to AMP; AMP revenues come from rates; the way revenues are collected is very different from the General Fund; AMP's bond rating is different and looks at certain ratios; reserve levels and labor costs differ; the specifics in the later part of the document do not apply; that he would take the document to the Public Utilities Board (PUB) and suggest amendments as part of its budget process.

The Housing Authority Executive Director stated the Housing Authority can seek up to 105% of budget when going out for financing.

Councilmember Tam requested that the speaker's comments [on Policy I.E.3] be addressed.

The Interim Finance Director stated financial analysis done under a program performance budget applies a methodology to determine if the City should operate a program; the program is evaluated on the

resources necessary to provide the program; within each program, the City decides whether to pay cash for equipment and whether to contract for professional services; there is a methodology and analysis process; that she tried to make the policy as macro as possible; there are stepping stones and a hierarchy of staffing resources in many cases; that she is trying to capture that opportunities should be explored; all alternatives have to be reviewed before making a decision; for example, very small rural areas still have volunteer fire departments, which would not work in an urban environment; program options have to be reviewed and personalized for each city.

Councilmember Matarrese stated the policy has some "how to" relevance; financial policies should support human resource policies; the system has value; the City's social contract is to oversee employees that are well paid and benefited; when outsourcing underbids, something is being shorted because the company makes a profit; the taxpayer will pay for the shortfall somewhere along the line; the City has recognized the matter and has a prevailing wage ordinance; the policy belongs under the "how to" section; there are obvious examples of outsourcing, including one time use of an esoteric professional service or services that staff cannot keep up with; the policy [I.E.3.] and the human resource policies should be taken out of the document; a separate discussion could be held on human resource policies.

Vice Mayor deHaan suggested the policy be amended to: "The City shall deliver service in the most cost effective and efficient manner."

Bob Sikora, Alameda, stated many people are concerned that not enough attention is being paid to biological and geophysical sustainability; suggested a policy be inserted.

Vice Mayor deHaan stated it [environmental sustainability] should be included in the definitions.

The Interim Finance Director gave an overview of Section II, Budget Development and Adoption.

Mayor Johnson inquired about the intent of Policy 3 under Balanced Budget [II.G.3]; stated fund balance spent should be identified as fund balance draws.

The Interim Finance Director stated Council has to authorize spending from the fund balance.

Mayor Johnson inquired whether money from the fund balance cannot

be spent without Council approval, to which the Interim Finance Director responded only Council can authorize use of money from the fund balance.

Mayor Johnson inquired whether the policy could be specifically stated, to which the Interim Finance Director responded in the affirmative.

Red Wetherall, Alameda, stated the policies have been discussed and should already be in place; encouraged appropriate use of volunteers.

The Interim Finance Director stated Section III on Budget Administration and Financial Reporting includes a lot of "how to" items.

Councilmember Matarrese inquired whether requirements are mandated by outside agencies.

The Interim Finance Director responded the annual report and audit of certain funds are mandated.

Councilmember Matarrese suggested flagging policies which have additional requirements.

The Interim Finance Director stated interfund transfers and loans are addressed under Revenue Management [Section IV]; most language for User Fee Cost Recovery [Section V] was drafted and adopted prior to her arrival; numbers and percentages need to be updated; Policy V.H.2 addresses appeal fees, which should be revisited.

In response to Mayor Johnson's inquiry regarding the appeal fee, the City Manager stated the matter would be added to the issue bin.

Mayor Johnson stated the City has had some experience under the current situation; it is time to review the fee.

Councilmember Matarrese stated the broad policy question deals with whether or not the appeal is granted; the fee should be the current amount if the appeal is granted; an increased amount should be paid if the appeal is denied; further stated there is a process for recovering user fees; inquired whether a policy addressing each user fee is needed.

The Interim Finance Director responded that some language could be deleted; stated that she was creating a trail of what exists; continued her review; stated the ferry should be removed from the Enterprise Fund [Section VI].

Councilmember Matarrese stated enterprise funds should be defined; there is an artificial notion that the sewer fund makes money; further stated that he would like AMP included in Section VI.

In response to the Interim Finance Director's comments regarding a chart of accounts, Councilmember Gilmore stated having a chart of all funds is a great idea; the Development Services and Planning and Building Departments' budgets should include restrictions about how revenues can be spent.

Vice Mayor deHaan inquired why the ferry should be removed from the enterprise fund.

The Interim Finance Director responded an enterprise fund should have fees that pay for the service, be self-sustaining and have assets and liabilities akin to a private sector "for profit" operation.

The Public Works Director stated many funds are used for the ferry, which does not pay for itself.

The Interim Finance Director stated the matter could be added to the issue bin; perhaps the ferry could be moved into a special revenue fund.

Mayor Johnson stated, under golf, the City needs to avoid having management spend down reserve funds to pay for operating costs; suggested language be added; further stated the definition of operating costs should include maintenance.

Councilmember Matarrese inquired whether an option could be provided to get rid of the term "enterprise fund;" stated none are really self sustaining; unless every sewer were up to date, there is an artificial expectation that it is a true enterprise; said situation was discovered with golf and telecom; the City is not in business to make a profit.

The Interim Finance Director stated the funds are enterprise under Governmental Accounting Standards Board (GASB) rules; gave a brief review of Section VII, Revenue Distribution.

Councilmember Tam stated the policy should be explicit that General Fund revenue is not earmarked; inquired whether or not funds could be dedicated for fire when the City sought revenue enhancement with Measure P.

The Interim Finance Director responded the Jarvis family of

propositions require a 2/3 vote for a specific tax and 50% for a general tax; provided a brief review of Section VIII, Investments.

In response to Mayor Johnson's inquiry about whether "or designee" should be removed from Policy A, the City Manager stated the language could be tightened up.

The Interim Finance Director provided a brief review of Appropriations Limit [Section IX] and Fund Balance and Reserves [Section X].

Mayor Johnson inquired whether Equipment Replacement [Section X.B] includes computer systems, to which the Interim Finance Director responded in the negative.

Councilmember Tam inquired what computer systems fall under, to which the Interim Finance Director responded ISF.

Councilmember Matarrese stated staff should address whether there is creative way to make the whole IT system a capital asset.

The Interim Finance Director stated the matter would be added to the issue bin; reviewed Capital Improvement Management [Section XI] and Capital Financing and Debt Management [Section XII].

Councilmember Tam stated the debt ratio [XII.D.5] is 4:1; inquired whether the ratio was pulled from an existing policy.

The Interim Finance Director responded investments bankers would say 4:1 is the most conservative ratio; stated 3:1 can be a very healthy ratio; the State recommends 4:1; the ratio could be changed.

Councilmember Tam stated that she is only interested in amending the ratio if it helps the City's credit worthiness and bond rating.

Mayor Johnson inquired whether "Pay-As-You-Go" [XII.A.4] is clear enough.

The Interim Finance Director responded in the negative; stated it needs to be defined.

Mayor Johnson suggested adding factors for not favoring pay-as-you-go financing; questioned whether the policy should be not to favor pay-as-you-go.

Councilmember Gilmore stated pay-as-you-go means not incurring debt, which sounds like a good thing.

The City Manager stated pay-as-you-go for OPEB differs from pay-as-you-go for capital improvement projects.

The Interim Finance Director stated that she would change the wording.

Councilmember Matarrese stated the document should be in plain English.

Vice Mayor deHaan inquired whether XII.D.5 should include: "the City may consider allowing a value-to-debt ratio of 3:1."

The Interim Finance Director stated the ratio might be considered in certain circumstances for a really good project.

Vice Mayor deHaan inquired whether the City has ever done so, to which the Interim Finance Director responded not to her knowledge.

Councilmember Matarrese stated if the reason not to follow the policy outweighs the benefit of following it, the matter could come to Council; there should not be wiggle room.

The Interim Finance Director stated that she would leave the sentence, but take out the 3:1 ratio; she would keep in mind said theme about exceptions when she goes through the document; reviewed Human Resources Management [Section XIII]; inquired whether the section should be deleted and addressed under personnel policies and procedures.

Mayor Johnson stated part relates to the Council's role in the budget; suggested parts that are not Council budget issues be removed.

The Interim Finance Director stated the theme in the first one [XIII.A.1] could be used and the rest of the "how tos" could be collapsed.

Mayor Johnson stated Council needs to see which positions are funded and which are not under XIII.A.3.

The Interim Finance Director stated the budget template would show that [funded positions].

Councilmember Matarrese stated financing should meet, not drive, the requirements of organizational structures and supervising.

Mayor Johnson inquired where cut items would end up; stated that

she would like to leave in XIII.C.1 with additional language that the organization is efficient and effective.

Vice Mayor deHaan inquired where human resource policies are currently held.

The Human Resource Director responded the policies are in various places, such as MOUs and civil service rules, but could be put in one comprehensive document.

Mayor Johnson stated that she wants language added about funding an efficient and effective organization.

Vice Mayor deHaan suggested the item be moved to the front section.

The Interim Finance Director stated the section would be eliminated, made macro and made part of the Guiding Principles at the beginning.

The Council expressed consensus.

Mayor Johnson stated, wherever Compensation Standards [XIII.E] ends up, it should include that the City will make an effort to have information presented to the public more understandable.

The Interim Finance Director addressed Productivity and Performance Measurement, Section XIV, and Contracting for Services, Section XV; inquired whether Section XV should be kept or deleted.

Councilmember Matarrese stated the best way to have control over core day-to-day services is by having employees; projects, such as building construction and certain professional services, cannot be staffed by City employees.

Mayor Johnson stated the section seems to address "how tos" and does not need to be included.

Councilmember Matarrese stated the issue could be discussed in work programs and project budgeting.

The Interim Finance Director stated the thought about core day-to-day services being provided by employees translates into a good front-end principle.

Vice Mayor deHaan inquired where the policies were before.

The Interim Finance Director responded that she developed the policies; stated a principle could be written to address

contracting out criteria.

Councilmember Gilmore stated the suggestion makes sense; the policy could indicate that employees deliver the best services and provide guiding principles if there is an occasion to use outside contractors.

Dorothy Freeman, Alameda, discussed the City's list of projects for federal stimulus funding.

The Deputy City Manager provided an update.

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Mayor Johnson called a recess at 12:40 p.m. and reconvened the meeting at 1:13 p.m.

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(09-063) Recommendation to accept Budget Program and Format for FY 2009-10.

The Interim Finance Director gave a brief presentation.

In response to Mayor Johnson's inquiry regarding the Fire Department's Advanced Life Support (ALS) program, the Fire Chief gave a brief overview.

Mayor Johnson inquired whether ALS is just transport, to which the Fire Chief responded in the negative.

Mayor Johnson stated breaking out transport would be really helpful.

The Interim Finance Director stated the idea could be reviewed and would be added to the issue bin.

Mayor Johnson stated the cost of running the Fire Academy should be identified.

The Fire Chief stated the academy is included under training.

The Interim Finance Director stated converting to the format is a process; there are activities within each program; the City needs to get everything under programs before breaking it down to the next level; activities could be addressed as part of the FY 2010-11 budget.

Vice Mayor deHaan inquired what is in place now, to which the Interim Finance Director responded the current budget does not have

the level of detail being proposed.

Vice Mayor deHaan inquired whether the Recreation and Parks Department currently has the same cost centers.

The Interim Finance Director responded in the affirmative; stated the cost centers remain the same in some cases; further stated the goal is to break down everything into programs to see the cost of providing the service.

Mayor Johnson stated the programs should be broken down to the correct level even if it cannot be done in a year; for example, the cost of the Fire Academy should be known; Council needs to know the cost in order to set priorities.

Councilmember Gilmore stated the categories provided [in Attachment C] would feed into the template for the upcoming budget; inquired whether costs could still be obtained even if the deeper level would not be added to the template until FY 2010-11.

The Interim Finance Director responded in the affirmative; reviewed the format.

Councilmember Gilmore inquired how cost recovery is captured for non-revenue generating departments, to which the Interim Finance Director responded the department's portion of cost allocation is shown as revenue.

Mayor Johnson inquired whether the Finance Department gets money from other departments.

The Interim Finance Director responded in the affirmative; gave a brief explanation of cost allocation.

Mayor Johnson inquired whether technology costs, including hardware, are part of cost allocation, to which the Interim Finance Director responded user departments are charged for IT.

Vice Mayor deHaan inquired whether other municipalities have similar systems in place so Alameda does not have to reinvent the wheel.

The Interim Finance Director responded the format presented is a standard program performance budget; there are a variety of budget formats; the proposed format is the way to identify service costs.

In response to Vice Mayor deHaan's inquiry, the Interim Finance Director provided background information on program performance

budgets.

Vice Mayor deHaan inquired whether funding from other entities is shown as revenue, to which the Interim Finance Director responded in the affirmative.

In response to Mayor Johnson's inquiry about how long completely building the budget would take, the Interim Finance Director reviewed the timeline.

Mayor Johnson inquired where vehicles, equipment and training would be in the budget.

The Interim Finance Director responded vehicles would be under ISF; training would be in departmental budgets; further stated training would be allocated by program.

Vice Mayor deHaan inquired how AMP does its internal financial management and whether it is done the same way.

The AMP General Manager responded the PUB is going through the same process, is looking at improving reporting and would be making some changes; stated the budgets may not be identical next year; AMP is going in the same general direction as the City.

Councilmember Matarrese stated the City and AMP seem to be going through the same process in parallel; hopefully, the process will match up; the items in the spreadsheet are the only required customization; inquired whether one effort could be used, rather than two separate efforts.

The Interim Finance Director responded financial information for the Housing Authority and AMP is not in the City's system; stated the City does payroll for both and is reimbursed, but does not handle budget revenue and expenses; staff would be hard pressed to get the City and redevelopment agency converted to the new system; the Housing Authority and AMP would have some similar pieces, but complete conversion would be impossible.

Councilmember Matarrese inquired whether services are being duplicated, to which the Interim Finance Director responded in the negative.

The AMP General Manager stated AMP has a completely different system and accounting rules; AMP can use the same format for its part of the City's budget document.

Mayor Johnson stated the AMP budget should be consistent with the

City's format; the program-based format should be consistent throughout the City.

The AMP General Manager stated that he would bring up the issue with the PUB; outlined the process.

Mayor Johnson stated the public should only have to learn to read one budget format.

Vice Mayor deHaan inquired what implementing the proposed format would cost.

The Interim Finance Director stated the cost is hours of staff work; further stated setting up the system is labor intensive, but maintaining the system is easy.

Mayor Johnson stated switching to the proposed format is a good thing because it allows Council to understand how money is being spent; further stated Council should be informed if additional money is needed for implementation.

Lorree Zuppan, Alameda, stated the effort is commendable; the City should be cautious not to take programs down to too far of a level; time might end up being spent on things that have no net impact, which wastes resources.

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Mayor Johnson called a recess at 1:55 p.m. and reconvened the meeting at 2:05 p.m.

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(09-064) Consider various funding options for cost recovery of Internal Service Fund (ISF) deficits.

The City Manager gave brief comments.

The Interim Finance Director gave a presentation on the ISF.

Councilmember Matarrese inquired whether department budgets would have to absorb the charge back to cover the deficit, to which the Interim Finance Director responded in the affirmative.

Councilmember Matarrese inquired whether the amount is a true deficit.

The Interim Finance Director responded the negative balance is an operating deficit; the funds represent fixed charges; a sufficient amount has not been charged back for a number of reasons; staff has

done due diligence to get to true numbers; the question is what needs to be done now.

Councilmember Matarrese stated building a budget starting with the fixed costs makes sense.

Mayor Johnson inquired whether the negative amounts are due to not charging enough or departments not paying.

The Interim Finance Director responded the issue is a system issue, not departmental; funds are taken out of department budgets.

Mayor Johnson inquired whether the amount is from the current fiscal year.

The Interim Finance Director responded in the negative; stated the amount has been reached over many years; \$2.6 million is too much to absorb.

Mayor Johnson requested an explanation of the significance of having a negative in the workers' compensation fund.

The Interim Finance Director stated workers' compensation premiums and claims are being paid from other funds.

The City Attorney inquired how much of the workers' compensation deficit is a build up over time from not charging departments and how much is from choosing not to backfill from the account used to pay claims.

The Interim Finance Director responded both; stated it is not uncommon for an ISF to run negative because a claim that was estimated to cost \$250,00 might end up costing \$500,000; the additional \$250,000 should be factored in the next year and the department would have to pay an increased rate; the fund should be built up to create a reserve.

Mayor Johnson inquired whether claim payment comes from the General Fund and is reimbursed.

The Interim Finance Director responded in the negative; stated a transfer is not made between the General Fund and the ISF; the claim is paid and adds to the cumulative negative.

Mayor Johnson inquired where does the money come from.

The Interim Finance Director responded the cash comes from the City's cash account and is negative cash.

Councilmember Gilmore stated there seems to be a structural problem; departments have not been adequately charged, which has built up the deficit over the years; a formula based on a certain percent does not work; the amount needs to be recalculated every year.

The Interim Finance Director stated the amount is personalized based on the fund users, which needs to be revisited every year.

Councilmember Gilmore stated workers' compensation has a negative balance over \$2 million; inquired where money would come from if there were a new \$1 million charge.

The Interim Finance Director responded the claim is charged to the workers' compensation ISF; stated the City has money in cash; negative funds are not netted out at the end of every year; if the negative amounts were zeroed out, the amount would be a hit against the fund responsible for the claim; if the claim were for a General Fund department, the amount would come from the General Fund; the vast majority of the departments with claims are General Fund departments.

Mayor Johnson inquired whether the amount comes from the [General Fund] reserve.

The Interim Finance Director responded the amount would [come from the General Fund reserve] if not recovered from the department.

Councilmember Gilmore inquired whether the \$2.6 million deficit is measured against the fund balance; and whether the \$8 million in cash indicated in the budget document, accounts for the \$2.6 million or if the amount still needs to be subtracted out.

The Interim Finance Director responded the latter [the amount still needs to be subtracted out].

Councilmember Matarrese stated a policy is needed that prohibits the ISF rolling deficit; ISF need to be zeroed out right now.

Councilmember Gilmore stated the unrestricted General Fund cash reserves are not truly the amount listed; the budget document should reflect the true unrestricted cash number.

Mayor Johnson inquired whether there is a break down of the \$2.046 million deficit; and whether the intent is to assign amount to departments.

The Interim Finance Director responded in the affirmative; stated staff knows how the amount accumulated over many years.

Mayor Johnson inquired whether the intent is to use the breakdown to have the departments pay back outstanding amounts.

The Interim Finance Director responded debt would not continue going forward; stated small amounts would be easy to fix; larger amounts accumulated overtime would be difficult to resolve.

The City Manager noted the IT funds would be expended this fiscal year.

Councilmember Tam stated that she is trying to match the seven categories in the ISF against the guiding principles, which has designations for major equipment replacement, public facilities, workers' compensation and OPEB; inquired whether there is an ability to transfer between the [ISF] funds; stated the balance of other [ISF] funds exceeds \$2.6 million; inquired whether the Beltline litigation was under the risk management column and each department paid a portion.

The Interim Finance Director responded only departments involved would pay.

Mayor Johnson requested that the Council be provided an answer to the question about the Beltline litigation charges.

The Interim Finance Director stated that she would look up the charges.

Councilmember Matarrese inquired whether departments that owe money to the deficit would be assessed for the amount owed, to which the Interim Finance Director responded in the affirmative.

Mayor Johnson inquired whether the General Fund balance with the [deficit] amount removed would be \$8.8 million minus \$2.6 million.

The Interim Finance Director responded it would if the amount were taken from the fund balance; stated staff is suggesting alternatives; the amount cannot be resolved in one year; \$2.6 million would be a serious cut in services and programs.

Councilmember Gilmore stated that she understands \$2.6 million cannot be made up in one year, but the budget document should reflect the \$6.6 million in true cash and should not include amounts that are needed to pay for something else.

Mayor Johnson stated debt should not be incurred without determining how to pay for it.

Councilmember Matarrese stated \$8.8 million is not a true figure; money is being spent that is not being assessed; the only two payment choices are to cut services or take the amount from the fund balance; that he would not support options to defer or borrow to pay for it [deficit].

Mayor Johnson stated a policy needs to be in place that the City cannot accumulate debt or negative fund balances that are not being paid; inquired how many years the deficit has been in place.

The Interim Finance Director responded that she does not know off the top of her head.

Mayor Johnson requested that Council receive the breakdown [amount owed] for each department.

Councilmember Matarrese stated the only course is to zero out the amount against the General Fund balance.

The Interim Finance Director stated staff suggests working within the funds to cover half of the deficit and create a repayment plan.

Vice Mayor deHaan requested that providing Council with the breakdown be added to the issue bin.

Mayor Johnson inquired whether money in current department budgets could be used to start paying the workers' compensation deficit, to which the Interim Finance Director responded in the negative.

Mayor Johnson inquired whether more debt is being incurred this year, to which the Interim Finance Director responded in the negative.

Mayor Johnson inquired whether the \$2 million [deficit in workers' compensation] was spent.

The City Attorney provided an explanation of workers' compensation charges.

Mayor Johnson noted the \$2 million debt is in addition to the money that has to be set aside in the event all claims have to be paid.

The City Manager gave a presentation on the ISF and the staff suggestion on how to resolve the deficit.

Councilmember Gilmore inquired whether the \$2.6 million deficit would be caught up in three years under the proposed plan, to which the City Manager responded in the affirmative.

Mayor Johnson stated a decision cannot be made until Council hears the OPEB options; inquired whether staff has a better handle on the numbers to ensure the departments pay their share going forward.

The Interim Finance Director responded the formula is fine going forward.

Vice Mayor deHaan inquired what is the need for \$600,000 for IT.

The Interim Finance Director responded major work needs to be done between now and June 30 because the system is becoming too risky to operate; outlined the needs; stated auditors have commented that upgrades are needed; the cost to massively overhaul the system would be over \$2 million.

Vice Mayor deHaan inquired whether any of the fund has been obligated, to which the Interim Finance Director responded in the negative.

In response to Vice Mayor deHaan's inquiry about when the City learned of the problems, the Interim Finance Director stated the analysis came recently; the new GASB rules require an IT audit.

Vice Mayor deHaan inquired why he did not see the analysis, to which the Interim Finance Director responded the analysis was in a separate memo.

Mayor Johnson inquired whether the City would be changing from the Groupwise system.

The Interim Finance Director responded that she does not know; more detail would be provided.

Vice Mayor deHaan stated the information should have been presented as part of the audit at the last meeting; inquired whether the Fiscal Sustainability Committee (FSC) has been informed.

The Interim Finance Director responded in the negative.

Mayor Johnson requested that the Groupwise issue be addressed.

Councilmember Matarrese stated \$600,000 from equipment replacement needs to be reprioritized for IT to deal with a critical problem; rolling over debt goes to the bottom line of the General Fund; that

the fund balance is \$1.1 million less should be made clear.

Councilmember Gilmore stated that she is recommending that the fund balance reflect the true amount, not that the amount be taken out of the General Fund and the ISF deficit be zeroed out; she prefers the three year repayment plan.

Mayor Johnson inquired why the IT amount is reflected if it has not been spent, to which the City Manager responded the number represents the amount projected to be spent by the end of the Fiscal Year.

Mayor Johnson requested a breakdown of the IT number.

Councilmember Gilmore stated the plan is good; the amount will be accounted for on the front page of the fund balance; departments would be charged for three years to catch up; staff would account for future costs; Council reprioritized IT funds years ago; requested that IT give a presentation breaking down how the \$600,000 would be spent and the plans going forward to modernize the City, including cost.

The Interim Finance Director suggested the information be presented as part of the Finance budget.

Mayor Johnson inquired whether the Council has ever made cuts in the amounts departments pay to the IT ISF.

Councilmember Gilmore stated IT was a separate department when Council cut the budget.

The City Manager stated that the IT ISF started a year ago.

Mayor Johnson stated that she does not recall IT being cut.

Vice Mayor deHaan stated that he could not support paying off the [ISF] deficit without knowing the history, which should be provided.

Councilmember Matarrese stated IT is the ideal situation to contract out; server farms can be maintained by companies offsite; that he wants separate direction given; the Council seems to be in consensus that the fund balance on the front page of the budget should be the true number; separate direction should be given about whether the debt should be repaid over three years or zeroed out now.

Mayor Johnson stated money should not be taken out of the fund

balance; the City needs to be disciplined and live within its means; inquired whether the equipment plan would be okay under the three-year repayment plan.

The Interim Finance Director responded in the affirmative.

Mayor Johnson stated the amount going into the equipment reserve fund should be reviewed; perhaps too much money is going into said fund; that she supports the idea of the down payment and repayment during the next two years; inquired whether the down payment would be the first year and repayment would occur during the next two years.

The Interim Finance Director responded the fund transfer would occur this year and repayment would occur in three years starting July 1.

Mayor Johnson stated that she agrees that the actual fund balance should be reflected; inquired whether money is included for the East Bay Regional Communications System.

The City Manager responded the amount was not included; stated the matter would be added to the issue bin.

Mayor Johnson noted the City can withdraw before debt is incurred and might need to do so.

Councilmember Matarrese inquired whether money being repaid each year by departments would be reflected in the figure that shows the fund balance available cash, to which the Interim Finance Director responded in the affirmative.

The City Treasurer stated that he is concerned about the integrity of the equipment replacement budget, which is \$1.6 million short this year.

The Interim Finance Director stated equipment replacement appreciation is done based on present value; planning for future value can be done but has a cost.

The City Treasurer stated the FSC is using future value; that he is curious how the equipment replacement fund has ended up with a surplus; \$1.3 million of the workers' compensation deficit seems to have occurred this year; inquired how it happened; stated the City has historically low workers' compensation claims; inquired whether the year was a fluke or a trend; inquired when a more accurate workers' compensation premium would be built into the system and what would be the percentage of payroll.

The Supervising Accountant responded two bases are used for the calculations: the actual pay out for workers' compensation claims and the department payroll.

The City Treasurer inquired how much the department payroll is bumped up.

The Interim Finance Director responded around 3 to 5%; the exact number would be provided.

The City Treasurer stated approximately \$4 million could be needed in the next fiscal year.

Mayor Johnson stated using present value [for equipment replacement] does not make sense.

The Interim Finance Director stated the model could be run using future value.

The City Treasurer stated workers' compensation costs should be assigned to the source.

In response to Vice Mayor deHaan's inquiry regarding the \$4 million, the City Treasurer reviewed how he came up with his estimate.

The City Manager concluded the discussion.

* * *

Mayor Johnson called a recess at 3:35 p.m. and reconvened the meeting at 3:50 p.m.

* * *

(09-065) Consider various financing and pre-funding options for Other Public Employee Benefit (OPEB).

The City Manager gave a brief presentation.

Mayor Johnson requested staff to provide a breakdown of the amount owed; stated the Council received a report that the range was from \$70 million to \$140 million; inquired whether there is no longer a range and the amount is \$75 million.

The Interim Finance Director responded the amount required to be funded is the net present value of the unfunded liability, which is \$75.6 million; stated the breakdown is: \$34.1 million for police, \$34.2 million for fire, and \$7.5 million for all others.

Mayor Johnson inquired what the \$140 million represents, to which the Interim Finance Director responded the amount was from the Bartel report.

Mayor Johnson stated the \$70 million figure assumes that the federal government will enact national health care.

The Interim Finance Director stated the assumption is not factored into the \$75.6 million calculation; the amount increases to over \$200 million if the City continues to pay-as-you-go.

The City Manager and the Interim Finance Director continued the presentation.

Mayor Johnson inquired whether investing \$75 million at 4.5% would pay for the benefit; and whether borrowing said amount and paying interest would not be sufficient.

The Interim Finance Director responded in the affirmative; stated the scenario described would finance OPEB, which is not stationary and would increase and require overlaying debt.

Mayor Johnson inquired whether the \$75 million only covers current and retired employees, to which the Interim Finance Director responded new employees are not included.

The Interim Finance Director continued her presentation.

The City Manager provided an overview of the actuarial.

The Interim Finance Director continued her presentation.

Vice Mayor deHaan inquired whether reaching \$10 million would take 8 years, to which the Interim Finance Director responded in the affirmative.

Councilmember Matarrese inquired whether the plan is to finance \$25 million to pay for the 1079/1082 retirement plans, continue paying \$2.1 million for OPEB [pay-as-you-go] and set aside and invest money for 8 years until it reaches \$10 million.

The Interim Finance Director responded in the affirmative; stated the annual OPEB obligation would be absorbed until there is enough money to mitigate.

Councilmember Matarrese inquired whether the tables assume the \$10 million is compounding and nothing is taken out, to which the

Interim Finance Director responded in the affirmative.

Councilmember Matarrese inquired whether a formula could be applied that would use some of the gain to pay the incremental [OPEB] increase.

The Interim Finance Director responded in the affirmative; stated the maximum amount of capital would be obtained in the first five years in spite of the difficult economic situation; if the economy recovers in five year, there might be additional options.

Mayor Johnson inquired what interest rates were used, to which the Interim Finance Director responded since the bond would be taxable, the variable coupon rate would have a range of 3.5 to 4% for the first five to six years and go to 7.2% 30 years from now; numbers would be obtained if Council is comfortable with the concept.

In response to Mayor Johnson's inquiry regarding future OPEB payments, the Interim Finance Director listed the payment amounts.

The Interim Finance Director continued her presentation.

Councilmember Matarrese stated interest earned on the savings should be calculated.

The Interim Finance Director continued her presentation.

The City Attorney gave a brief explanation of the validation action.

Vice Mayor deHaan inquired whether the idea has been presented to the City Treasurer and FSC.

The Interim Finance Director responded in the negative; stated that she talked to the City Treasurer about leveraging debt; a presentation has not been made to the FSC, but doing so would not be a problem.

Councilmember Matarrese stated the FSC is considering a debt vehicle as one options.

Mayor Johnson stated the City Treasurer had to leave, but could not comment since he had not seen the details; the matter should be discussed with the City Treasurer and he could bring it to the FSC.

In response to Mayor Johnson's request, the Interim Finance Director provided a breakdown of the annual payment structure.

Councilmember Matarrese stated that he likes the idea because it forces discipline; the City Treasurer and FSC have mentioned an obligation bond [for OPEB]; he would like an explanation if the Interim Finance Director is not comfortable with it [OPEB bond]; he would like to see the figures presented today compared side by side with an OPEB bond.

Mayor Johnson stated other options that were explored should also be addressed when the matter returns to Council.

The Interim Finance Director stated financing \$75 million could be an issue.

Councilmember Tam commended staff for coming up with the creative idea of leveraging the 1079/1082 plans; that she is not comfortable with the idea of a \$75 million bond, which is a huge debt during a difficult time; she would urge Council to direct staff to do parallel vetting: 1) going through the validation process in the court system; and 2) going through the FSC and showing the two options [1079/1082 bond versus OPEB bond].

Mayor Johnson inquired whether said direction is acceptable.

Councilmember Matarrese responded in the affirmative; stated that he would like to see whether the risk of carrying the larger debt has benefits that might be worth considering.

Councilmember Gilmore stated that she concurs with her colleagues; the financing scheme takes care of the current debt; when new employees are hired, the budget would include salary and OPEB funds upfront to keep from adding to the liability.

Mayor Johnson stated Council should be very clear that it has no intention of leaving the benefit the way it is now, which is not sustainable.

Councilmember Gilmore inquired whether \$75,000 would go into the OPEB savings account when new employees are hired, to which the Interim Finance Director responded in the affirmative.

Vice Mayor deHaan stated that he would like to see the final projections; he has reservations; there are options; encouraged the Interim Finance Director to play with the numbers.

Mayor Johnson stated the numbers need to be run out to see if there are big payments in 30 years; the upfront investment might need to be bigger; inquired whether the intent is to actually prepay when new employees are hired.

The City Manager responded in the affirmative.

The Interim Finance Director noted a 1079/1082 bond would be a pension obligation bond (POB) and an OPEB bond is a benefit obligation bond (BOB).

Councilmember Matarrese stated the City Attorney indicated validation could take three to six months; inquired whether Council could give direction to start now.

The City Attorney stated the validation process would be started right away.

Mayor Johnson stated the direction includes comments from Vice Mayor deHaan and Councilmember Matarrese about the upfront size [bond amount] and projecting out the whole 30 years; borrowing \$75 million for OPEB would be reviewed.

Councilmember Matarrese stated \$97 million could be borrowed, which is \$75 million for OPEB and \$23 million for 1079/1082; multiple options should be reviewed: 1) a 1079/1082 bond, 2) an OPEB bond, and 3) bonds for both the OPEB and 1079/1082 plan.

Mayor Johnson stated \$75 million is based on 4.5% interest; the amount needed would be greater if the 4.5% interest rate cannot be met.

Vice Mayor deHaan stated pay-as-you-go increases 10-14% per year; the City has to react.

Council thanked the Interim Finance Director, Finance Department staff, the City Manager and Department Heads.

* * *

(09-061A) Recommendation to accept the Financial Report for the Second Fiscal Quarter - October, November and December 2008.

[Note: The item was discussed at beginning of meeting; see Page 1]

Councilmember Tam moved approval of the staff recommendation.

Councilmember Gilmore seconded the motion, which carried by unanimous voice vote - 5.

* * *

The City Manager provided closing comments.

Adjournment

There being no further business, Mayor Johnson adjourned the Special Meeting at 5:08 p.m.

Respectfully submitted,

Lara Weisiger
City Clerk

The agenda for this meeting was posted in accordance with the Brown Act.